

NCUA News

Access Across America



NCUA hosts "Access Across America" workshop in Massachusetts

Forum focused on governmental resource partners as part of White House Minority Homeownership Initiative

NCUA co-sponsored an "Access Across America" workshop in Westborough, Mass. Nov. 14 focusing on credit union partnership opportunities with the Neighborhood Reinvestment Corporation (NRC) and its NeighborWorks System. Board Member Deborah Matz, who represents NCUA on the NRC board, hosted the workshop, co-sponsored by the Massachusetts Credit Union League.

"This workshop will open the door to homeownership for many credit union members who have not had access to mortgage services in the past," said Matz. "Homeownership is key to realizing the American dream and credit unions, partnering with NRC and NeighborWorks, can make the dream a reality for millions of families."

The program was designed for credit union CEOs and managers who plan to or currently provide services to underserved areas in Maine, New Hampshire, Rhode Island and eastern Massachusetts. The workshop enhanced these credit unions' ability to expand financial services – with

a focus on achieving homeownership – to the population located in underserved areas by partnering with the Neighborhood Reinvestment Corporation and its affiliated partners. Both the NCUA and NRC are partnering with the White House and the Department of Housing and Urban Development to achieve President Bush's goal of creating 5.5 million new minority homeowners by the end of the decade.

"We are extremely pleased to share information on resources available to credit unions that will facilitate achievement of the President's goal," Chairman Dollar said.

NRC is a congressionally chartered, public nonprofit corporation that consists of representatives from the five federal financial regulatory agencies as well as the Department of Housing and Urban Development.

The workshop included presentations from the NRC, several local NeighborWorks organizations, FDIC and representatives from credit unions currently partnering with NeighborWorks organizations.

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House Appropriations approves \$1.5 billion CLF borrowing authority and \$1 million CDRLF funding

The House Appropriations Subcommittee on VA, HUD, and Independent Agencies approved legislation (H.R. 5605) October 7 to provide additional funding for the Community Development Revolving Loan Fund and set the borrowing authority limit for the Central Liquidity Facility for 2003. The full Appropriations Committee approved the legislation on October 9 which provides:

- \$1 million for the Community Development Revolving Loan Fund for fiscal year 2003. The Committee designated \$700,000 for loans and \$300,000 for technical assistance grants.
- \$1.5 billion borrowing authority for the Central Liquidity Facility.

News briefs

House Committee approves CDFI

funding – The House Appropriations Subcommittee on VA, HUD and Independent Agencies approved legislation that would provide \$80 million in appropriations for the Treasury Department's Community Development Financial Institutions (CDFI) fund for fiscal year 2003.

PATRIOT Act compliance extended –

The Treasury Department issued an interim final rule October 25, 2002, deferring the compliance date regulators begin enforcing the PATRIOT Act until final rules are published, expected within the next six months. Among other things, the PATRIOT Act requires financial institutions to verify the identity of accountholders and ensure they are not included on federal terrorist lists.

December 5300 Reporting – Credit unions, for the first time, will be able to upload their call report data transmission files directly to NCUA via the Internet beginning with the yearend 2002 reporting cycle.

International visitors – NCUA hosted representatives from Kenya, Moldova and China in September and officials

from Mexico, Korea, Australia and Thailand in October.

Asset valuation workbook updated –

The updated asset valuation workbook examiners use to evaluate a credit union's potential interest rate risk exposure is available on the NCUA web site at <http://www.ncua.gov/ref/Investment/ALM-reviewprocedures.html>

This tool helps determine the scope of the ALM review.

NCUSIF reserves increased – \$2.2 million was added to fund reserves for potential losses in September due to anticipated losses to the NCUSIF – \$1.5 million was expensed to increase the national pool reserve and \$0.7 million was expensed to increase specific case reserves.

NCUSIF equity level – The equity level of the NCUSIF increased to 1.29 percent at September 30, 2002. The current equity level is based on the June 30, 2002, insured shares of \$444.5 billion. An NCUSIF dividend is not projected for 2002 based primarily on the infusion of share deposits during the year.

Credit union failures – Ten credit unions failed through September 2002. Two involuntary liquidations were purchase and

assumptions. Year-to-date, losses have cost \$11.4 million.

Capitalization deposit adjustment and

refund – Deposit insurance invoice/refund statements were mailed to credit unions with assets of \$50 million or greater September 17, 2002. Refunds of \$3.2 million were issued by ACH September 27, 2002, to credit unions that declined in insured shares between January 1 and June 30, 2002. Credit unions with share increases were invoiced \$254.9 million. Payment was due October 25, 2002.

Board actions expected within 90 days

- NCUA 2003/2004 budget - November
- Operating fee scale - November
- Part 703 proposed rule - December
- Part 702 proposed PCA changes - November
- Part 701.34 and Part 705 FOM - November
- Establish 2003 loan application period and interest rate for the Community Development Revolving Loan Fund's loan program - December
- NCUSIF Operating level for 2003 - December

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Dennis Dollar, Chairman

JoAnn Johnson, Board Member

Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

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GC opinion letters



The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions submitted by the credit union community.

To secure the letters mentioned, contact NCUA's Office of Public & Congressional Affairs, 1775 Duke Street, Alexandria, Va. 22314-3428 or access NCUA's web site at www.ncua.gov/ref/opinionletters. Summaries of a few recent opinion letters follow.

02-0446a – Florida federally insured credit unions (FICUs) can qualify as public depositories – If Florida law authorizes FICUs to become public depositories, a FICU may participate in a public deposits guarantee pool with other FICUs, with prior approval from the NCUA Board.

02-0566 – North Carolina mortgage lending filing requirements – FCUs are not required to comply with the mortgage lending filing requirements in North Carolina's Mortgage Lending Act (MLA). Federal law preempts the MLA requirement that an FCU file for an exemption to engage in mortgage lending. The authority to enforce this provision is within NCUA's exclusive jurisdiction.

02-0827 – FCU Act preempts Connecticut open-end mortgage law – While NCUA's lending regulation expressly recognizes that FCUs are subject to state law in certain matters, the *FCU Act* and NCUA's lending regulation preempt a state law that bars FCUs from giving borrowers credit cards to access their home equity lines of credit.

Board actions

October 17, 2002

Final corporate rule adopted

By a two-to-one vote, the NCUA Board approved the final Part 704 Corporate Credit Union rule with major revisions in capital, credit concentrations and credit risk to enable corporate credit unions to remain competitive while maintaining safety and soundness standards.

Some major changes in the final rule include:

- Delay compliance with the revised definition of paid-in-capital until July 1, 2003, to give corporates the opportunity to issue 20-year, paid-in capital instruments.
- Replace the proposal to restrict dividends with a requirement corporates notify their board, supervisory committee, the OCCU, and the state regulator if applicable, if the retained earnings ratio falls below 2 percent. A retained earnings action plan is required in specific circumstances.
- Allow state-chartered corporates to request a waiver to provide service permitted by their state regulator.
- Modify the definition of credit union trade association to include state leagues and league service corporations and national trade associations and delete special interest associations and affiliates from the definition.
- Establish a 25 percent of capital per obligor concentration limit for "BBB" rated securities.

2003-2008 strategic plan issued

The NCUA Board approved the agency's 2003-2008 strategic plan. A central theme recognizes NCUA must balance the need for safety and soundness with the industry's need to take reasonable risks to be competitive and to effectively serve credit union members.

NCUA's strategic plan goals remain unchanged while the agency's philosophy and focus have shifted toward a more flexible, facilitating agency based on

guidance and direction from the NCUA Board.

The new strategic plan is a collaborative process that spanned 14 months and included over 200 focus groups within NCUA and throughout the credit union community. The plan places goals and strategies in the forefront forming the foundation and acting as a roadmap and guide. NCUA shifted the focus to goals and measures deemed significant and eliminated duplicated goals and measures.

The plan is being sent to Congress, the White House, trade associations and state regulators and is available on the web at:

www.ncua.gov/ref/plans-and-reports/index.html

2003 computer leasing program approved

The NCUA Board voted to replace the current agency-owned notebook computers with new computers and peripherals in the first quarter of 2003. The lease on the current computers expires next January. The new three-year lease is expected to cost less than \$6.5 million, about \$1 million under NCUA's current computer leasing arrangement.

In 1999, the NCUA Board implemented a policy to replace all agency computers every three years to keep pace with technology and make the agency's budget for technology equipment more consistent from year to year. Significant advances in hardware, communications and security in the past three years also warrant updating this equipment.

The notebook computers NCUA and state supervisory staff currently use were leased in January 2000.

Share Insurance quarterly report

Through September 30, 2002, the National Credit Union Share Insurance Fund gross income for the year was \$164 million, operating expenses were \$62.6 million, net income was \$94.8 million and insurance losses were \$6.9 million. The NCUA Board decided in July to add

a minimum \$1.5 million monthly to the general reserve pool until reaching the target reserve level of \$60 million. Current reserves are \$47 million.

NCUSIF net income is projected to be \$121.9 million at yearend 2002. The interest rate on Fund investments declined to 3.92 percent in September and, tracking the market, is expected to decline further. The bulk of Fund investments are held in 1-day to 2-year investments.

The Fund is expected to end the year with a 1.25 equity ratio based primarily on the rapid rate of share growth, and no dividend is projected. The number of problem credit unions has risen slightly, up from 205 to 227 through September, and the percentage of shares in problem credit unions to total insured shares has risen from 0.43 to 0.68 percent. Ten federally insured credit unions were closed through September, which could mean a record low number of closures in 2002.

Charter modifications

Community expansion approved

The NCUA Board approved a request from \$369.9 million **Webster First Federal Credit Union**, Webster, Mass., to expand its community charter boundaries to include the 750,963 people of Worcester County. Many who live and work in Worcester County already qualify for membership.

Underserved areas added

The NCUA Board approved the request of \$237.6 million **SSA Baltimore Federal Credit Union**, Baltimore, Md., to add an underserved area within Baltimore to its field of membership. Based on the 1990 census, the population of the underserved area is 631,265, representing about 86 percent of the city of Baltimore.

The NCUA Board approved the request of \$237.1 million **Lafayette Federal Credit Union**, Kensington, Md., to add an underserved area within Washington, D.C., to its field of membership. The underserved area includes approximately 479,000 people, roughly 79 percent of the city's population.



Who: Board Member Deborah Matz will be meeting with members of the South Dakota credit union League.

When: Tuesday, Nov. 5, 2002

Where: Sheraton Hotel, Sioux Falls, S.D.

Why: Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

Contact: Patty Jenkins at 703-518-6318, or pjenkins@ncua.gov

Who and What: Chairman Dennis Dollar will speak at the Tidewater Chapter of Virginia credit unions.

When: 6:00 p.m., Thursday, Nov. 14, 2002

Where: Chesapeake Conference Center, Chesapeake, Va.

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q&A with participants is scheduled.

Contact: Nicholas Owens at 703-518-6336, or nowens@ncua.gov

Who and What: Board Member JoAnn Johnson will address the Alabama credit union League Fall Education Conference.

When: Thursday, Nov. 14, 2002

Where: Grand Hotel Marriott, Point Clear, Ala.

Why: Board Member Johnson will share her insight into credit unions and the future direction of NCUA.

Contact: Heather Graham at 703-518-6309, or hgraham@ncua.gov

Who: Board Member Matz will host a workshop in Boston, Massachusetts.

When: Wednesday, Nov. 14, 2002

Where: Wyndham Westborough Hotel, Westborough, Mass.

Why: Board Member Matz will keynote

a workshop on partnership opportunities for credit unions with the Neighborhood Reinvestment Corporation and its NeighborWorks system.

Contact: Patty Jenkins at 703-518-6318, or pjenkins@ncua.gov

Who: Board Member Matz will address the Credit Union Affiliates of New Jersey.

When: Saturday, Nov. 23, 2002

Where: Bally's Park Place Casino Resort, Atlantic City, N. J.

Why: Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

Contact: Patty Jenkins at 703-518-6318, or pjenkins@ncua.gov

Who and What: Board Member JoAnn Johnson will address the American Association of Credit Union Leagues Annual Meeting.

When: 8:15 a.m., Friday, Dec. 6, 2002

Where: Hilton Waikoloa Village, Waikoloa, Hawaii

Why: Board Member Johnson will share her insight into credit unions and the future direction of NCUA.

Contact: Heather Graham at 703-518-6309, or hgraham@ncua.gov

Who: Board Member Matz will address the American Association of Credit Union Leagues Annual Meeting.

When: Friday, December 06, 2002

Where: Hilton Waikoloa Village, Waikoloa, Hawaii

Why: Board Member Matz will share her insight about the future of the credit union movement. Participant feedback will be solicited on NCUA initiatives and policies.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov

Who and What: Chairman Dennis Dollar will speak at the CUES Directors Conference.

When: 8:30 a.m., Wednesday, Dec. 11, 2002

Where: Orlando World Center Marriott, Orlando, Fla.

Why: Participant feedback will be considered and solicited on NCUA initiatives and policies. Q&A with participants is scheduled.

Contact: Nicholas Owens at 703-518-6336, or nowens@ncua.gov

Dollar helps cut the ribbon at America's Credit Union Museum

NCUA Chairman Dennis Dollar participated in the official grand opening and ribbon cutting ceremony at the new America's Credit Union Museum in Manchester, New Hampshire, Friday, October 18, 2002, during International Credit Union Week.

"It is a true honor to be asked to participate in this ceremony celebrating the rich history of America's credit union movement," said Dollar. "Literally millions of lives have been positively impacted by the movement which began on this site in 1907. This museum is a tribute to the vision of those original credit union pioneers and a challenge to continued vision for all of us responsible for building tomorrow's credit unions."

This museum is the first dedicated entirely to the history of the American credit union movement. It is located on the original site of St. Mary's Bank Credit Union, the first credit union established in this country in 1907. Sponsored and operated by the New England Credit Union Heritage Foundation, the three-story museum features historical displays and memorabilia from the history of credit unions in America. Conference and meeting space for credit union groups is also available at the facility.



October 18, 2002, Manchester, N.H. Chairman Dollar (center) at America's Credit Union Museum along with Peggy J. Powell, Executive Director of the New England Credit Union Heritage Foundation and administrator of America's Credit Union Museum and Gordon A. Simmons, CEO of Service Credit Union and chairman of the New England Credit Union Heritage Foundation.

Laws and Enforcement Authorities for Credit Unions

Listed below are the various laws and regulations that apply to credit unions and the related federal enforcement authorities.

Laws & Regulations	Federal CU's	Federally insured state-chartered CU's	Non-federally insured CU's
PART I-CREDIT			
B-Equal Credit Opportunity	NCUA	FTC	FTC
E-Electronic Fund Transfers	NCUA	FTC	FTC
Fair Credit Practice Rule	NCUA	FTC	FTC
M-Consumer Leasing	NCUA	FTC	FTC
RESPA-Real Estate Settlement Procedures Act	HUD	HUD	HUD
Z-Truth in Lending	NCUA	FTC	FTC
PART II-HOUSING			
C-Home Mortgage Disclosure	NCUA ²	NCUA ²	NCUA ²
Flood Disaster Protection Act	NCUA	NCUA	FHA/VA
FHA-Fair Housing Act	HUD	HUD	HUD
PART III-PRIVACY			
*BSA-Bank Secrecy Act (Currency & Foreign Transactions Reporting Act)	NCUA	NCUA ¹	TREAS
Consumer Privacy	NCUA	NCUA	NCUA
Fair Credit Reporting Act	NCUA	FTC	FTC
Privacy of Consumer Financial Information	NCUA	NCUA	FTC
Right to Financial Privacy Act	Private	Private	Private
PART IV-CREDIT UNION OPERATIONS			
CC-Expedited Funds Availability Act	NCUA	NCUA	FRB
D-Reserve Requirements	FRB	FRB	FRB
Fair Debt Collection Practices Act	NCUA	FTC	FTC
Management Officials Interlocks Act	NCUA	NCUA	DOJ
Soldiers and Sailors Relief Act	Private	Private	Private
Truth in Savings Act	NCUA	NCUA	NCUA

LEGEND:

DOJ	Department of Justice
FHA/VA	Federal Housing Administration/Veterans Administration
FRB	Federal Reserve Board
FTC	Federal Trade Commission
HUD	Department of Housing and Urban Development
Private	Private Cause of Action
TREAS	Treasury Department

NOTE: Although NCUA is not the primary enforcer under some of these regulations, Title II of the FCU Act authorizes NCUA to take cease and desist actions for violations of any law.

¹ For FISCUs examined by NCUA

² Enforcement authority also applies to CUSOs

*PATRIOT Act amended the Bank Secrecy Act as well as other legislation.





Board Member Johnson: "Dialogue brings results for member business lending"

Board Member JoAnn Johnson credited open dialogue for a revision the NCUA Board made October 15, 2002, to appraisal rules applicable to member business loans. Board Member Johnson's commitment to open communication between the credit union community and the NCUA Board served as a catalyst for this change.

In a meeting with the Oregon credit union delegation, Gene Poitras, president of the Credit Union Association of Oregon, responded to Mrs. Johnson's invitation to suggest ways to reduce unnecessary regulatory impediments by requesting clarification on whether appraisals were required on member business loans over \$50,000 that involved real estate.

The NCUA Board amended the appraisal rule last year to increase the threshold to \$250,000 when appraisals are required on member business loans involving real estate. In reviewing the rule based on Mr. Poitras' inquiry, it was clear that a technical correction was nec-

essary to clarify the Board's intent. The NCUA Board approved the clarification by notation vote October 15, 2002. (Notation votes are used to expedite certain Board decisions.)

"I foresee improvements to the member business lending regulation that will go beyond merely making changes that provide parity with state law, Board Member Johnson said. "I encourage NCUA staff to think creatively about ways to enhance the small business rule while remaining within the confines of the statute and safety and soundness. It is my intent to enhance the small business lending regulation so that credit unions can continue to meet the needs of small businesses today as well as into the future."

The entire member business lending regulation is currently being reviewed as part of NCUA's on-going regulatory review project that updates, clarifies and simplifies existing regulations.

About investments

Credit analysis

When discussing investment risks facing credit unions, liquidity and interest rate risk typically receive top billing as the most significant. How-



ever, current economic conditions (i.e., rapid share growth and low investment yields) are encouraging some credit unions to take on an increasing amount of credit risk to improve investment yields.

Credit unions that purchase investments with credit risk (e.g., jumbo CDs, Fed funds, and bank notes) should conduct a thorough credit analysis as part of the due diligence process. At a minimum, credit unions should obtain the credit rating of the issuing institution from a nationally recognized statistical rating organization such as Standard & Poors, Fitch, or Moody's, if available.

However, credit ratings often lag changes in the credit quality of an institution. Recall how Enron and MCI/WorldCom ratings failed to recognize impending bankruptcies. Further, many institutions do not obtain credit ratings. For these reasons, credit unions should also conduct independent credit reviews, which may consist of monitoring significant company news and evaluating financial statements. The depth and scope of review should be commensurate with the credit union's credit risk exposure.

Another prudent practice and requirement of Part 703 of the *NCUA Rules and Regulations* calls for federal credit unions to establish limits on credit risk concentrations. Board-approved investment policies should clearly state the maximum amount of investments that may be purchased from any one issuer. Preferably, credit unions would state these limits in terms of net worth at risk (i.e., the credit union can purchase bank notes from ABC Bank not to exceed X percent of net worth).

Credit unions that do not address credit risk policy and practice should not invest in instruments that carry credit risk. These credit unions should restrict investments to insured deposit products and investments with guaranteed principal and interest.

Matz tells audience financial literacy key to financial freedom

NCUA Board Member Deborah Matz observed Financial Literacy Day October 18, 2002, touting the benefits of a sound financial education at a New York City financial literacy event sponsored by the National Federation of Community Development Credit Unions.

Matz, who has supported credit union financial literacy efforts across the country, emphasized the importance of such education. "If you understand the basics . . . you are more than half way to financial freedom," she said.

"Too many Americans can't balance a checkbook, too many schools don't include financial education, too many young people don't know the value of saving and too many people use credit cards without understanding they will have to pay up in the future," Matz said,

lamenting the results of a lack of financial knowledge.

She urged credit unions to accept the challenge of providing financial education for everyone within their fields of membership and noted that many credit unions have noteworthy financial literacy programs. Mrs. Matz praised the Federation, which will train financial literacy educators based in community development credit unions who, in turn, will train credit union members.

"While the immediate impact of financial literacy education may be hard to measure," Matz explained, "I know it's worth it because it helps people build wealth - and makes them better savers, better-informed buyers and, ultimately, better members of their communities."

Dollar participates in White House Summit to expand minority homeownership

Dollar says President's "Blueprint for the American Dream" represents strong role for America's credit unions

Chairman Dennis Dollar was a featured presenter October 15, 2002, at the first White House conference on Minority Homeownership convened by President Bush and Department of Housing and Urban Development Secretary Mel Martinez, which combined hundreds of experts in public and private sector housing into a partnership to close the nation's homeownership gap.

Dollar presented remarks on credit union mortgage lending successes and emphasized NCUA's "Access Across America" outreach initiative during a panel on mortgage financing with Fannie Mae, Freddie Mac, the Federal Home Loan Bank system and the Mortgage Bankers Association of America.

"The President's commitment to this effort is evident in convening this conference and it is indicative of both the challenges facing people seeking the American dream of homeownership and the President's commitment to tear down barriers to achieve that dream," said Dollar.

"Credit unions do and will continue to play a vital role in our nation's economy....," said Dollar, "rising to meet

the President's homeownership challenge and building on the blueprint of the American Dream is a high priority and responsibility for all of us. Given their long history of providing financial service to folks from all walks of life, I am certain credit unions will be up to this important challenge."

One of the primary goals of "Access Across America" is to improve access for more Americans to an additional source for affordable mortgages Dollar explained.

"However, before people may obtain a mortgage they first need access. Access to affordable financial services becomes absolutely critical in achieving the goals we are here today to discuss," Dollar said.

"2001 was a record year in credit union mortgage lending, but credit unions can become an even greater source to provide access to mortgage financing for the American public, thus presenting a tremendous opportunity to help many achieve the American dream of homeownership," Dollar said.

The President's goal is to close the homeownership gap by increasing minority homeownership by 5.5 million by the end of the decade.

To read the Blueprint for the American Dream, visit www.hud.gov/blueprint. Access Chairman Dollar's remarks on the NCUA's website www.ncua.gov.



October 15, 2002, Washington, D.C. - President Bush addresses the conference on Minority Homeownership, "Blueprint for the American Dream." On stage behind the President are two new homeowner families, Jessie Horton and son, J.T., from Little Rock, Arkansas; and Kim Berry, a single mother from Central Islip, New York, and HUD Secretary Mel Martinez.

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